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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

East German Foreign Trade Policy

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August 1971

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
August 1971

INTELLIGENCE MEMORANDUM

EAST GERMAN FOREIGN TRADE POLICY

Introduction

1. After World War II the USSR and Eastern Europe 1/ replaced West Germany and Western Europe as the chief market for East Germany's machinery and other manufactures and its main source of fuels, metals, and other materials. By the 1960s the rapid growth of Soviet and East European manufacturing, in isolation from market forces, had created serious imbalances between supply and demand. This memorandum deals with the consequences for East German foreign trade policy. It touches on but does not explore the implications for foreign policy and for domestic economic policy.

Conclusions

2. East Germany is being forced to adjust to an overabundance of machinery and a rising scarcity of materials throughout the CEMA area. 2/ The once large East German export surplus in machinery with the USSR and Eastern Europe is fast shrinking, and the import surplus in raw materials and semimanufactures, although still large, has increased very slowly since

1. The terms Eastern Europe and the East European countries include Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.
2. References to CEMA (the Council for Mutual Economic Assistance) are to the European active full members - the USSR and the above-mentioned East European countries. CEMA also includes Mongolia as an active full member, Albania as an inactive member, and Yugoslavia as an associate member.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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the mid-1960s. Changes in the composition of East German trade have come mainly in imports. As shown in Figure 1, East German machinery imports in 1970 from CEMA reached more than five times the 1960 level. At the same time, imports of industrial consumer goods from CEMA nearly quadrupled, and imports of Soviet military end items more than tripled. On the other hand, imports of fuels, ores and metals, nonmetallic minerals, and chemicals from CEMA rose by only 40%, in spite of large increases in a few products, notably crude oil, and there was an even smaller increase in imports of textile fibers and yarn, hides and furs, wood and wood products, and foodstuffs.

3. In the early 1970s, the composition of East German imports from the CEMA area will shift further in the same direction. Machinery imports are expected to more than double from 1970 to 1975, and imports of industrial consumer goods and of military end items will probably continue to rise rapidly. Imports of industrial materials and semimanufactures will grow slowly, and imports of agricultural and forestry products and foodstuffs from CEMA may even drop a little.

4. In order to meet East Germany's needs for materials, the regime has had to turn to the West. East German imports of fuels, ores and metals, other minerals, and chemicals from the West increased faster in the 1960s than those of any other East European country except Romania. As shown in Figure 2, they more than doubled from 1965 to 1970, and they provided most of the increment in East German imports of these products. East German imports of Western feed and foodstuffs also increased greatly. A considerable further expansion of material imports from the West in 1971-75 is likely, although the East Germans do not publicly admit it. A continued rapid increase in machinery imports from the West also is in the cards.

5. Changes in trade patterns with CEMA have led to two changes in East German foreign trade policy. First the regime has agreed to support its version of economic "integration" in CEMA after years of sceptical indifference. The huge increase in East German machinery imports from the area and the mounting difficulty of filling material requirements have left the regime no choice but to accept new measures to coordinate the East European economies with one another and with the Soviet economy. Second, expanding needs for Western materials and machinery have forced East Germany to increase its dependence on West Germany, reversing the policy of the early 1960s. East German imports from West Germany rose from \$300 million in 1965 to over \$600 million in 1970, greatly embarrassing the regime in its efforts to discourage its East European allies from "normalizing" relations with West Germany. But East Germany could not afford to overlook the built-in advantages of the trade - exceptionally favorable prices, easy access to credit, and, what is more, a relatively strong

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Figure 1

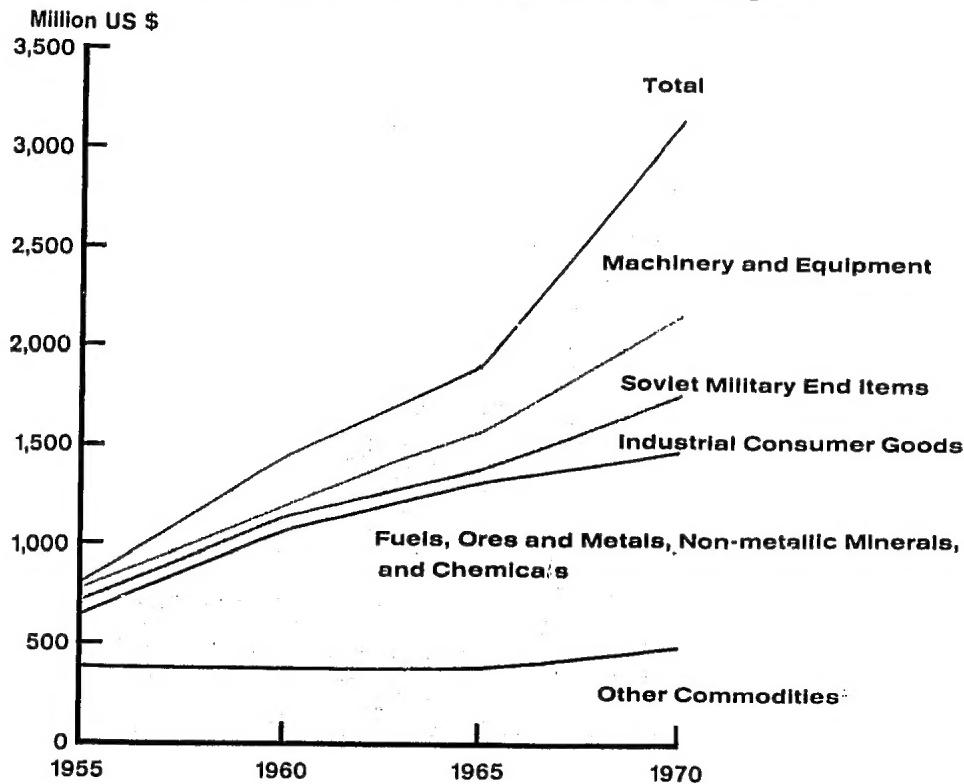
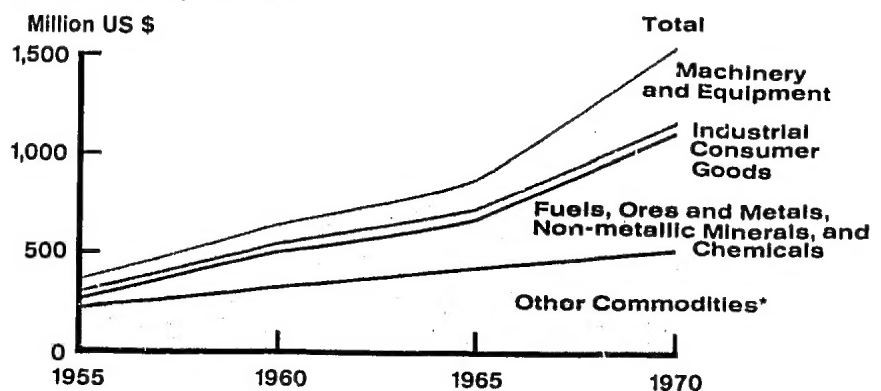
East German Imports from CEMA, Excluding Mongolia

Figure 2

East German Imports from the Free World, Including Yugoslavia

*Chiefly textile fibers and yarn, wood and wood products, hides and furs, animal feed, and foodstuffs

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position in the West German market. East Germany needs to exploit these advantages, and the regime will have to pay a political price – either to tolerate closer West German relations with its East European allies or to face worsening East German relations with them.

6. The East German domestic economy has just begun to adjust to the growing economic imbalances in CEMA. In 1968-70, at the insistence of Walter Ulbricht, East Germany maintained the pace of economic growth at a rate of 4-1/2% per year ^{3/} by going deeper in debt. In the last two years, East German indebtedness rose by \$400 million to the industrial West (about one-half to West Germany) and by somewhat more to the USSR, Poland, and Hungary. Ulbricht's successors must live more frugally. They will continue efforts to upgrade exports and thus strengthen East Germany's bargaining position in CEMA and its competitive position in the world market. But that is at best a slow process; in the short run, East Germany is likely to be forced both to go further into debt and to cut the rate of economic growth.

Trade with the USSR

7. The development of trade with the USSR, which has been more than 40% of total East German trade throughout the 1960s, has had the deepest influence on East German trade policy and economic development. The average rate of growth in this trade dropped from 14% per year in 1956-60 to 6% in 1961-65, rising to 8% in 1966-70. At the same time, the composition of Soviet deliveries changed. Deliveries of raw materials and semimanufactures, which had gone up rapidly throughout the 1950s, grew slowly in the 1960s. In contrast, deliveries of machinery and equipment, negligible till the late 1950s, rose in 1970 to a level 10 times that of 1960 and shipments of military end items rose to over three times the 1960 level. Accordingly, the share of raw materials and semimanufactures dropped from 83% in 1960 to about 60% in 1970, whereas for machinery and equipment the share rose from 4% to 18%, and for military end items from 11% to 19%. (For the development of East German imports from the USSR, see Table 1.)

8. A slowdown in the growth of Soviet exports of raw materials and semimanufactures was to be expected in the 1960s. The enormous rise in these exports from the very low levels of the early post-war period had provided the main stimulus for East German recovery, especially after 1955. By that time the USSR was supplying most of the increment in East German supplies of fuels, ores and metals, wood, and textile fibers. With the completion of East German recovery, the growth rate was bound to decline,

3. *Estimated growth of gross national product.*

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Table 1
Composition
of East German Imports from the USSR

	Percent of Total				
	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1970</u>
Machinery and equipment	<u>1.0</u>	<u>3.6</u>	<u>7.8</u>	<u>18.1</u>	<u>18.5</u>
Total itemized except machinery and equip- ment	<u>83.4</u>	<u>85.7</u>	<u>80.1</u>	<u>62.1</u>	<u>62.4</u>
Fuels and lubricants	12.7	14.8	16.4	11.8	11.4
Ores and concentrates	3.5	2.8	2.4	1.6	1.8
Base metals and manu- factures	21.8	30.0	31.0	23.9	24.0
Chemicals	1.8	1.8	2.4	2.6	2.9
Wood and wood products	0.6	3.8	6.3	5.6	5.9
Textile raw materials	20.1	9.4	7.7	4.6	4.8
Grains	17.7	12.6	4.8	6.3	6.0
Other feed and food- stuffs	2.4	7.7	5.5	3.3	3.5
Industrial consumer goods	0.9	0.7	0.5	0.7	0.9
Other	1.9	2.1	3.1	1.7	1.2
Residual (military end items)	15.6	10.7	12.1	19.8	19.1
Total	100	100	100	100	100

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and with it the requirement for additional Soviet material deliveries, although East Germany would of course remain heavily dependent on the USSR. That fact was reflected in the 1961-65 trade agreement, which provided for an increase of only 8% per year in material deliveries as against the 22% annual rate of 1956-60. That agreement was fulfilled, some shortages -- as in ferrous metals -- being offset by additional deliveries of other products, including fuels.

9. But the outlook had already begun to change as a result of the Soviet economic slowdown of 1962-63. Khrushchev's euphoric view of Soviet capabilities then gave way to a more sober view, in which available resources -- including raw materials -- seemed hardly equal to Soviet obligations and ambitions. The full effect of the change in Soviet outlook was felt in negotiating the trade agreement for 1966-70, after Khrushchev's successors had taken over. Soviet offers and East German requests for materials were further apart than ever before, and the distance did not diminish as negotiations dragged on through 1965. The final agreement, concluded in December 1965, which provided for only about 6% annual increase in material deliveries, was such a blow that the head East German planner, Erich Apel, killed himself rather than sign it.

10. Moreover, within two years, the Soviet government in effect "renegotiated" the agreement, cutting back sharply a number of commitments for materials -- including hard coal, rolled steel, aluminum, copper, and petroleum products. Additional commitments of coke and iron ore did not begin to offset the cutbacks.

11. The final result was that actual Soviet deliveries of materials increased in total value by only 3% per year in 1966-70, half the rate implied on the original agreement. 4/ Crude oil deliveries rose by 14% per year, and there were significant increases in a few other commodities -- rolled steel (8% per year), lead and zinc (3% and 5%, respectively), and apatite ore and concentrates (9% per year). 5/ But deliveries of petroleum products fell to only a fraction of the 1965 level, and coal deliveries dropped by almost one-half. Deliveries of copper, cotton, and wool also dropped substantially until 1970, when deliveries were up sharply. And there were no significant increases over the 1965 level for other important materials, including coke, iron ore, pyrites, pig iron, and wood. Table 2 compares the total amounts delivered in 1961-65 with those agreed on and actually delivered in 1966-70.

4. Soviet deliveries at current prices increased at almost 12%. There was a price reduction of about 4% from 1965 through 1969.

5. Lead and zinc deliveries were higher in 1969 than in 1970, although in many other cases deliveries rose sharply in 1970. Imports of some other commodities not mentioned here also rose substantially over the period; other imports dropped.

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Table 2
Soviet Deliveries of Materials to East Germany

	Thousand Metric Tons ^{a/}		
	<u>Actual 1961-65</u>	<u>Scheduled 1966-70</u>	<u>Actual 1966-70</u>
Crude oil	16,434	36,100	37,773
Petroleum products	2,645	N.A.	570
Hard coal	30,264	31,500	20,168
Hard coal coke	7,304	6,000	6,712
Iron ore	6,154	6,000	6,455
Pig iron	3,370	3,700	3,619
Rolled steel products	8,028	12,000	11,171
Copper	172	222	170
Aluminum	294	500	464
Lead	168	218	216
Zinc	138	190	182
Apatite ore and concentrates (P ₂ O ₅)	1,200	N.A.	1,927
Pyrites	486	540	530
Timber <u>b/</u>	8,643	10,600	10,764
Sawn lumber <u>b/</u>			
Cotton	418	410	408
Wool	82	75	67
Cellulose	193	280	257

a. Unless otherwise indicated.

b. Thousand cubic meters.

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12. While Soviet material deliveries leveled off, the growth of Soviet exports of machinery and equipment to East Germany accelerated. In the original trade agreement the rate of increase for 1966-70 was set at 17% per year, well below the 23% rate of 1961-65 — not surprisingly, since the 1965 base was three times the 1960 level. In 1967, however, the USSR proposed to send additional machinery to compensate for the slower growth of material deliveries, and exports for the period rose by an average annual rate of 25%.

13. Throughout the 1960s, Soviet machinery exports were heavily concentrated in transportation, agricultural and construction equipment. Big diesel freight engines, commercial aircraft, trucks and tractors, passenger automobiles, and bulldozers and excavators together accounted for two-thirds of the total value. ^{6/} Soviet deliveries of industrial equipment are substantial only in two cases, machine tools and electrical and electronic equipment.

14. The volume of East German machinery exports to the USSR is much larger, but most of these exports fall into the same general category. Transport equipment, construction and mining machinery, and agricultural machinery make up one half of the total; machine tools and electrical goods almost another one-fourth. The products exchanged are, for the most part, quite distinct — East German passenger and freight cars and Soviet locomotives, East German ships and Soviet aircraft and automotive equipment, East German harvesting equipment and milking machines and Soviet tractors, East German presses and forges and Soviet metalcutting and metal-shaping tools, East German marine diesel engines and diesel generators and Soviet electronic equipment. In short, the two countries "specialize" in distinct lines of equipment.

15. Evidently, specialization has been intended to minimize close interrelationships in machinery production between the two countries. In very few cases do the USSR and East Germany exchange closely related types of machinery — models of different sizes or complementary machines — and in practically no case have they exchanged components or subassemblies. Specialization has meant the development of a few lines — indeed a few models — of investment goods. With the exception of equipment for the engineering industries, very little of the trade in investment goods is intended for the manufacturing industries.

The Rationale of Soviet Trade Policy

16. Soviet trade policy toward East Germany changed in the 1960s because of a growing imbalance between supply and demand in the Soviet

^{6/} *If the value of spare parts is included.*

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economy and throughout the CEMA area. The USSR, like the East European countries, was producing an ever larger exportable surplus of machinery, hardly any of it saleable on the open market. But in the USSR and throughout the area, raw materials were becoming scarcer and more expensive to produce. The USSR, the chief exporter of raw materials in the area, was developing high-cost raw materials from new sources to supplement materials from older sources that were being exhausted. Even at a higher cost, Soviet planners foresaw that Soviet industry would not be able to supply growing demand at home and in Eastern Europe while expanding material exports to the West to pay for the advanced technology needed to "catch up."

17. These considerations explain mounting Soviet insistence on substituting machinery for materials in exports to East Germany. East Germany relied far more on the USSR and far less on the West for raw materials than any other East European country except Bulgaria. Presumably, the Soviet government took the position that it was only fair to require the East Germans to reduce their reliance on Soviet materials. East Germany could afford to do so in spite of its lack of exportable foodstuffs and industrial materials -- on which the other East European countries rely in trade with the West -- because of its unique access to the West German market. These considerations would explain why East Germany received much less favorable treatment for materials in the late 1960s than the other East European countries, with the exception of Romania.

18. In addition, the USSR in 1967 required East Germany to "invest" in the Soviet oil industry. A great deal of Soviet capital was tied up in expanding crude oil output, and the Soviet government found it only fair that the East Germans should make a contribution. Czechoslovakia had already agreed to provide actual equipment for crude oil extraction as a large part of its investment. East Germany does not produce much in the way of oilfield equipment, and the USSR was quite willing to settle for other goods. The deal provided for East German exports of various goods on credit through the mid-1970s in exchange for crude oil shipments apparently running from 1971 into the early 1980s. The total amount involved has never been stated, but at a guess might run to as much as \$2 billion each way for the period of the contract. Recently the East Germans have made a similar deal to obtain Soviet natural gas, and have announced that they will also "contribute" to the mining of copper and asbestos. They are also negotiating terms of participation, along with other East European countries, in other Soviet projects, including a new combine to produce iron and steel.

19. The USSR would apparently have been satisfied with less sweeping shifts in trade patterns if the East Germans -- and the other East European

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regimes -- had accepted Soviet proposals for changing the terms of trade by raising prices for raw materials and semimanufactures relative to prices of finished goods, especially machinery. Khrushchev brought up the idea of raising raw material prices in CEMA trade in 1962 in his proposals for moving toward economic "integration." His successors pushed the idea even harder in 1966-67. They argued in effect that it cost more to produce raw materials in the CEMA area than it did to produce machinery. These proposals gave new life to an endless debate on CEMA price policy that had begun in the 1950s.

20. But the East European countries were unwilling to proceed. Obviously, East Germany and Czechoslovakia, with large export surpluses in machinery trade, stood to lose heavily by the proposed changes in price structure. But the other countries as well -- with the exception of Bulgaria -- were likewise opposed. The reason was undoubtedly that the proposed changes would tend to curb the expansion of machinery trade -- and output -- a matter of at least as great concern to the less industrialized countries, which were still "catching up", as to East Germany and Czechoslovakia.

21. It is hard to say just how such a shift in CEMA prices would work and what effect it would have. But a significant shift would clearly make the export of machinery much less advantageous. It could even happen, as often in the case of machinery sold in the West, that the materials used would bring in about as much as the machinery itself, sometimes more. Even in such a case, the regimes might not willingly give up the expansion of machinery output "for the sake of output" -- and barter for the sake of barter. But the practice would be more exposed to criticism from economists and others within the regimes, which would add to pressures for basic changes in economic policy.

22. The steps that the USSR actually took in dealing with East Germany, to be sure, also encourage criticism and, in the long run, changes in East German policy, for they bring home the disadvantages of relying so heavily on the export of machinery that cannot be sold advantageously on the world market. That state of affairs progressively reduces East German freedom of action in deciding on production and investment and must in the longer run lead to increasing integration with the Soviet economy and to a wholesale assimilation of Soviet -- and East European -- technology. The East German elite has not yet accepted that as inevitable.

Parallel Trends in Trade with Eastern Europe

23. Very much the same thing happened in East Germany's trade with the East European countries, strongly reinforcing the effects of changes

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in East German-Soviet trade. East Germany's exports of machinery to the area in 1966-70 increased by less, even in absolute terms, than its machinery imports. East European deliveries of foodstuffs and industrial materials continued to rise, but very slowly, financed by increased East German exports of consumer goods and chemicals. The East European countries insisted on these shifts for the same reasons as the USSR: they were generating export surpluses of machinery that could not be sold in the West and were trying to maximize their material exports to the West.

24. The shifts in machinery trade with Eastern Europe were very rapid (see Table 3). In 1960, East Germany's machinery exports to the area were almost 2.4 times its imports, and the ratio was still 2/1 in 1965. By 1970, it had dropped to 1.3/1. The extreme case is in trade with Bulgaria: East German machinery deliveries in 1960 were 32 times the return deliveries of Bulgaria; the ratio dropped to about 3/1 in 1965 and to about 2/1 in 1970. But to one degree or another the same thing occurred with all countries except Romania, 7/ with the result that in 1970, when East Germany's machinery exports to the area were less than two and one-half times the 1960 level, its imports were nearly 5 times the 1960 level.

25. East German material imports from Eastern Europe grew very little during the late 1960s, as nearly as can be determined from incomplete data. After 1965 imports of coal and coke (from Poland and Czechoslovakia), petroleum products (chiefly from Romania and Poland), and ores declined sharply, although bauxite shipments from Hungary rose (the peak was in 1967). Steel and chemical deliveries were up enough to offset the decline, but not much more. Data on changes in shipments of industrial materials from Eastern Europe are shown in Table 4.

26. Agricultural and food imports from Eastern Europe did much better, chiefly because of a substantial rise in imports of processed foods from Bulgaria, Hungary, and Poland. These imports account for practically the entire increase in 1966-70 in CEMA deliveries of agricultural products and foodstuffs.

East German Responses

27. The East German response to these changes in the composition of trade with the USSR and Eastern Europe involved new developments in economic policy beginning in 1966-67. First and foremost, the East Germans struggled to balance requirements for raw materials and

7. *The contrasting treatment of Bulgaria and Romania -- the latter having achieved little net gain in machinery trade with East Germany -- as with other East European countries suggests that political attitudes as well as economic motives were involved.*

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Table 3

East Germany
Ratio of Machinery Exports to Imports
in Trade with Eastern Europe

	<u>1960</u>	<u>1965</u>	<u>1970</u>
Bulgaria	32.0	3.1	2.0
Czechoslovakia	1.4	1.5	1.1
Hungary	2	1.4	1.3
Poland	6.5	4.4	1.45
Romania	1.4	1.3	1.9 <u>a/</u>
All countries	2.4	2.0	1.3

a. Reflects relationship in 1968.

Table 4

East German Imports of Selected Fuels,
Ores, and Metals from Eastern Europe

	<u>Thousand Metric Tons <u>a/</u></u>		
	<u>1960</u>	<u>1965</u>	<u>1969</u>
Hard coal	2,827	3,034	2,734
Coke	1,308	1,660	1,512
Brown coal and briquettes	5,455	5,199	4,040
Petroleum products	26	35	28
Coke oven gas (million cubic meters)	20	13	8
Ferrous metals <u>b/</u>	87	288	353
Nonferrous metals	63	68	68
Bauxite	200	100	183

a. Unless otherwise indicated.

b. May include some nonferrous rolled products.

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semimanufactures, chiefly by increasing imports from the West, even though that entailed increasing dependence on West Germany. Second, the East German leadership, which had been following a cautious economic policy since 1962, tried to force expansion of the electronic equipment and petrochemical industries in order to strengthen East Germany's bargaining position in CEMA and its competitive position in the world market. Third, the regime swung to the support of economic "integration" in CEMA after years of evading the issue.

Balancing Material Requirements

28. The East Germans increased imports of Western materials dramatically in the 1960s, especially the late 1960s, in the effort to keep the economy going at full speed, in spite of two bad winters (in 1968-69 and 1969-70) and two years of poor farming weather (1969 and 1970). They were able to ease shortages somewhat, particularly of coal and power, by installing new generating equipment, reducing growth rates for some material-intensive and power-intensive products and, in 1969-70, by raising output of brown coal after years of allowing output to decline. They also put more emphasis on collecting and using scrap and waste materials. But only by greatly increasing imports from the West could the leadership pursue its ambitious goals for industrial growth.

29. Imports of Western fuels, ores and metals, nonmetallic minerals, and chemicals doubled from 1965 to 1970 and accounted for almost the entire increment in imports of these products. The rise in imports of Western agricultural and forestry products, associated semimanufactures, and foodstuffs was much less rapid - an increase of less than 20% - and prices rose significantly. Even so, imports from the West accounted for about one-third of the increment in imports of these products as well.

30. Changes in the commodity composition of imports from the West indicate clearly where the areas of greatest shortage were. Imports of a few commodities increased slowly or even dropped. Steel imports from the West rose less than 30% above the 1965 level, and East Germany almost maintained the 1965 level of steel exports to the West. Western deliveries of fertilizer dropped, as Soviet deliveries of phosphates and concentrates increased and as the East German chemical industry expanded domestic output of nitrogen fertilizer. Otherwise, imports from the West jumped. As a share of imports, Western hard coal and crude oil rose from about 3% to about 15% of the total. Given the sharp drop in Soviet deliveries of petroleum products, the increase in the share of Western fuels in total fuel imports was even greater. Western deliveries accounted for most of the increase in total supplies of copper and an important addition to supplies of zinc and aluminum ores and concentrates. Rising chemical imports

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continued to account for a large and growing share of imports of such products as synthetic rubber, synthetic fibers, synthetic dyestuffs, plastics, and pigments. By 1969, Western deliveries of chemicals accounted for almost two-thirds of all East German chemical imports. Table 5 shows data for selected imports of Western materials in 1965 and 1969, with partial reporting for 1970.

31. East German needs were fewer but still important for some other products. Of these, the most rapidly growing were animal feed and feed supplements - chiefly corn and oil cake - in short supply not only in East Germany but in the whole CEMA area and increasingly important as the regimes sought to expand and assure supplies of meat and dairy products. Large increases in imports of coffee, citrus fruit, and cigarettes, also intended to ease public feelings about persistent shortages of many goods, also came largely from the West. These products account for the growth of imports from the West in the whole category covering agricultural and forestry products and associated semimanufactures, including foodstuffs. Most other imports from the West in these categories declined in the late 1960s.

32. The increase in material imports involved a reversal of East German policy in that it increased economic dependence on trade with West Germany, long called "interzonal trade" (IZT). ^{8/} In the early 1960s the East Germans had succeeded in reducing that dependence. They had cut back the West German share of their trade with the West. As trade revived in 1964-65, they had swung away from importing commodities such as steel and chemicals, which increase day-to-day dependence of output on imports. Instead they had raised imports of machinery and were thus in a position to increase or reduce imports - or do without, if need be - with minimal disruption to output, exports, and consumption.

33. In the period 1966-70, and especially in the last two years, the East Germans went back on this policy in order to expand supplies of fuels, nonferrous metals, chemicals, and animal feed from West Germany, along with an even greater increase in machinery imports. West Germany led the increase in imports from the West, providing over one-half the increment in imports from the West and nearly one-half of the total imports from the West in 1970. ^{9/}

^{8/} The West Germans now call it "trade with the German Democratic Republic and East Berlin"; the East Germans call it "trade with the Federal Republic of Germany" plus "trade with Westberlin."

^{9/} As shown in Western trade data, which for the period still understate the trade of some Western countries with East Germany, although to a declining extent. In East German trade data, trade with West Germany is understated, chiefly by entering it on the basis of one "accounting unit" (West German mark) equal to one East German mark.

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Table 5

East German Imports from the West
(Including Yugoslavia) of Selected Fuels, Ores
and Metals, Nonmetallic Minerals, and Chemicals

	Thousand Metric Tons		
	1965	1969	1970
Coal	306	854	919
Coke	36	52	50
Crude oil	115	767	1,600 ^{a/}
Bauxite	100	62	N.A.
Alumina	11	43	47
Zinc concentrate (zinc content)	2	20	11
Cobalt ores and concentrates	Negl.	10	N.A.
Iron and steel products	402	510	515
Electrolytic copper	Negl.	13	13
Aluminum	3	5	N.A.
Other nonferrous metals	5	17	N.A.
Clay and other refractory materials	14	30	N.A.
Pyrites	Negl.	21	N.A.
Asbestos	17	48	N.A.
Phosphate fertilizer (P_2O_5 content)	86	47	54
Nitrogen fertilizer	203	78	32
Synthetic rubber	2	6	
Synthetic fibers	2	4	5
Synthetic dyestuffs	1	3	N.A.
Polyethylene	1	5	3
Polystyrene	1	3	N.A.
Polyvinylchloride	Negl.	3	2
Unspecified synthetics and plastics	5	8	N.A.
Titanium dioxide	4	11	4

a. This estimate, based on contracts and partial information on deliveries, is probably high.

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34. In order to increase imports from West Germany at such a rate, the East Germans bought on credit to a growing extent and by the end of 1970 owed about \$500 million to West German banks and suppliers, including \$150 million on "swing credit," which carries no interest and no time limit for repayment. About \$200 million of this indebtedness was acquired in the two years 1969-70.

35. The rapid rise of trade with, dependence on, and indebtedness to West Germany was awkward for the East German leadership, not only because it ran counter to a policy of growing independence from and aggressiveness toward West Germany but also, and especially, because it undercut East German efforts to discourage other East European countries from improving relations with West Germany.

36. But the economic advantages in trade with West Germany, derived from earlier agreements on "interzonal trade," evidently outweigh the political disadvantages in the minds of the East Germans. These advantages include better terms of trade, a rising swing credit limit, and an unusually well established position as a seller in the West German market. The advantage in terms of trade, taken alone, has been valued by East German staff economists at about \$137 million a year, and by West German writers at any where from \$100 million to \$190 million a year. Under an agreement reached in 1968, the swing credit limit was to rise with the trade, providing an ever-expanding free credit. Finally, East Germany sold several times as much to West Germany as to any other Western country and was practically free of the quota restrictions on sales of food, textiles, and clothing that still apply generally in East-West trade. In addition West Germany offered uniquely favorable prices for brown coal briquettes, wheat, and many other products.

Forced Development of Export Industries

37. East Germany could undoubtedly have avoided such a large increase in imports from West Germany by cutting back the rate of growth somewhat after 1967. But the decision taken, as a result of the rapid shifts in supply and demand on the CEMA market, was just the reverse -- to force the economy to the limit in the effort to develop new export industries. Walter Ulbricht resolved to push the development of the electronics and petrochemical industries at any cost in the hope of giving East Germany more competitive exports that could be sold on East German terms in CEMA or else in Western markets. In Ulbricht's eyes this objective justified the reversal of his earlier policy of reducing dependence on West Germany.

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38. The pursuit of this policy led East Germany into serious economic difficulties in 1969-70 - bottlenecks in supply, rapidly growing tie-ups of investment projects, and an unfavorable balance of payments. In addition to the \$200 million rise in indebtedness to West Germany, indebtedness to the USSR rose by nearly \$275 million, a deficit of about \$200 million accumulated with the industrial countries together with one of about the same with Hungary and Poland. All told, East German indebtedness rose by over \$800 million in the two years. Clearing account surpluses into other areas reduced the overall two-year deficit to some \$650 million, but these surpluses cannot be used to settle other debts. 10/

39. The rise in indebtedness involved painful economic and political consequences. Toward the end of 1970, East Germany was in default on payments due to many Western suppliers and was fearing still worse trouble in 1971. The East Germans may have gotten some help from Western creditors and perhaps from the USSR as well to help tide them over.

40. During the first half of 1971, moreover, they fell behind in their efforts to improve the trade balance with West Germany and the USSR. Even after overcoming the supply difficulties that still dog the economy, the new leadership will have its hands full meeting obligations to the USSR which now amount all told to as much as \$1 billion. Indebtedness to the West is more likely to rise than fall.

41. In short, the East German attempt to strengthen its export position left the regime in serious difficulties, which contributed to the replacement of Walter Ulbricht as leader. His successors will have to be more circumspect and will doubtless defer to Soviet advice on economic policy.

Acceptance of CEMA Integration

42. In one important respect, the East Germans have already given way to Soviet pressure - and to the facts of life -- by agreeing in 1970 to support economic "integration" in CEMA. The East Germans had a long record of tactful silence on this issue, going back to 1962, when Khrushchev came out in favor of a "supranational" planning staff for CEMA. East Germany, as the big net exporter of machinery and net importer of materials in Eastern Europe, was perhaps fearful of being outvoted on questions of specialization, allocation of materials, and pricing. In any case, the East Germans felt that "integration" with the USSR was enough and were sceptical about getting useful agreements among so many countries with divergent interests.

10. *These estimates reflect not only the trade balance but also the balance on other accounts, particularly for transport services.*

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43. The change in the East German position became known with the publication in the foreign trade journal in March 1970 of three obviously authoritative articles defining East German support of CEMA "integration." The articles ruled out the creation of any supranational institution to direct the CEMA economies, at any rate "in the present historical period." Integration would involve no relaxation of international controls or the foreign monopoly. Strong exception was taken to the Hungarian approach, though it was not ascribed specifically to Hungary. The East Germans accepted the need to develop "socialist commodity-money relations and the market categories connected therewith," but only as a subordinate aspect of planned "step-by-step socialist integration." This position, of course, closely parallels the Soviet position.

44. This public notice of East German support undoubtedly was preceded by official actions in CEMA in 1969 during the long series of meetings that followed the 23rd "special" CEMA Council in April 1969. Political pressures, particularly from the USSR, undoubtedly were heavy, but economic pressures probably were decisive in getting the East Germans to fall in line. Not only did they need Soviet economic help to continue with the push for developing the electronic and petrochemical industries in 1970, the East Germans also had to recognize that the overabundance of machinery and the scarcity of materials would require much closer coordination. If East Germany was to absorb steadily increasing amounts of machinery from all its allies, decisions on "specialization" were necessary, together with better enforcement of contracts for delivery. Soviet insistence on increasing "contributions" from Eastern Europe in the development of resources would also require common decisions.

45. For East Germany, as for the other East European countries, the prospect of closer economic coordination has rather increased than reduced the importance of trade with the West. They all see the development of alternative markets and sources of supply as the key to maintaining or improving the regime's bargaining position within CEMA. It is only an apparent paradox, therefore, that the rising pressure for "integration" must lead East Germany to renew and intensify its efforts to compete in the world market.

Trade Agreements with the USSR and Eastern Europe in 1971-75

46. Further pressure on the East German economic position has resulted from trade agreements with the Soviet and East European governments for 1971-75. Preparations began in 1967, and discussions commenced in earnest in 1968, both with trading partners and in CEMA meetings. The East German planners knew that they had to reckon with a continuation of the trends of the 1960s, but as usual pressed until the

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very end for more favorable terms than they could expect to receive. The main agreements were completed in 1970 -- the supremely important agreement with the Soviet Union in August -- but a great deal remained to be worked out at the end of the year, and a good many contracts have still to be concluded.

47. In particular, the East German regime had hopes of persuading the Soviet government to be somewhat more generous with materials in the 1970s and to offer a market for the projected rapid increase in output of electronic equipment. To be sure, the planners accepted a continued rapid increase in imports of Soviet machinery; they were to rise at least 20% per year to about 35% of total Soviet exports to East Germany by 1975. But given a projected total increase of 13% per year in total trade, plenty of room was left for substantial increases in other Soviet deliveries, not only crude oil but also most other materials. Even in late 1969, the planners were projecting a small increase in iron ore deliveries and substantial increases in deliveries of manganese and chrome ore, asbestos, apatite concentrates, and coke. Only coal shipments were shown as dropping -- the need for coal obviously would drop, as it had long since in Western Europe, as East Germany finally completed conversion of the railroads and the chemical industry to oil.

48. At the same time, the enormous growth in projected East German exports of electrical and electronic equipment, which were to rise at 27.5% per year, was expected to ease the requirement for exporting heavy industry equipment and, of course, the need for steel to make it with. By 1975, electrical and electronic equipment alone was to account for 29% of total machinery and equipment exports to the USSR, as against about 10% then projected for 1970.

49. In 1970, however, when it became obvious that the East Germans were not up to carrying out their ambitious plans, the USSR set terms that severely limited future adventures of this sort. For a reconstruction of the trade agreement for 1971-75, see Table 6.

50. Under this agreement, Soviet machinery deliveries are to rise to approximately three times the 1970 level, or at about 25% per year, as high a rate as in the late 1960s, and a breathtaking increase, given a rise of less than 9% per year in overall Soviet exports. As a result the share of machinery will grow from about 19% of total deliveries in 1970 to 37% of the 1975 total.

51. Apart from a substantial further rise in crude oil shipments -- at about 11% per year, they will total 64.5 million tons in the five years -- and deliveries of natural gas that are to begin in 1973 and will amount

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Table 6

East German Trade with the USSR

	1970 <u>a/</u>		1975 <u>b/</u>		Index (1970 = 100)
	<u>Billion US \$</u>	<u>Per- cent</u>	<u>Billion US \$</u>	<u>Per- cent</u>	
<u>East German Imports</u>					
Machinery and equip- ment	0.36	19	1.08	37	300
Crude oil and natural gas	0.14	7	0.31	11	221
Other commercial imports	1.06	55	1.01	34	95
Residual (chiefly military end items)	0.37	19	0.54	18	146
<i>Total</i>	<i>1.93</i>	<i>100</i>	<i>2.94</i>	<i>100</i>	<i>152</i>
<u>East German Exports</u>					
Machinery and equip- ment	0.99	57	1.55	55	157
Chemicals and other materials	0.15	9	0.25	9	167
Consumer goods	0.35	20	0.66	20	189
Residual (chiefly uranium deliveries)	0.24	14	0.38	13	158
<i>Total</i>	<i>1.73</i>	<i>100</i>	<i>2.84</i>	<i>100</i>	<i>164</i>

a. Figures for 1970 are from Soviet trade statistics. East German published totals differ only slightly, and the breakdown in East German internal statistics probably is about the same, although published East German statements suggest some serious discrepancies.

b. Estimates for total imports and exports projected for 1975 represented the announced total for turnover and an estimate of East German earnings on invisibles and repayment of Soviet credits.

Machinery imports are estimated from the statement that they will triple by 1975. Imports of crude oil and natural gas are based on estimated deliveries (in physical terms) times agreed prices. "Other commercial imports" are estimated as a residual in total commercial imports, based on the statement that machinery imports will represent 45% of total imports. Parallel usage for 1960 indicates that the total here includes only commercial imports. The residual in the total, chiefly military end items, is of course very sensitive to the balance-of-payments estimates used in calculating imports and exports from the figure given for turnover.

East German machinery exports are estimated from the statement that they would rise by "over 50%" and from information on total machinery turnover in 1971-75. Exports of chemicals and other materials are calculated as a residual in commercial exports. Consumer goods exports are calculated from the 1970 base given and from the total value agreed upon for 1971-75, on the assumption of a constant rate of increase. The residual, chiefly uranium deliveries, is projected at the same rate as in 1966-70.

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to 3 billion cubic meters by 1975, Soviet deliveries of materials on balance are not to increase. (This is indicated by "Other commercial imports" in Table 6.) Shipments of iron ore are sure to decline sharply, and chrome ore deliveries are to rise much less than as projected the year before. Ferrous metals shipments are to remain at about the level of 1966-70 and imports of nonferrous metals will rise slowly at best. Coal deliveries will of course drop; by how much cannot be determined. Imports of cellulose, wood, and textile fibers are unlikely to rise at all; they may fall somewhat. In total value, Soviet deliveries of materials are to increase even more slowly than in 1966-70.

52. East Germany for its part is committed to continuing much the same pattern of exports as in the 1960s, chiefly of material-intensive machinery and consumer goods. Indications have been given of plans for deliveries of ships, agricultural machinery, and railroad equipment -- three of the more important categories throughout the postwar period -- and for trade in data processing equipment, which is just beginning to develop.

53. Shipbuilding, which accounted for 16% of total machinery deliveries to the USSR in 1970, is likely to decline as a share in the 1970s. Deliveries will still be large -- 108 vessels in 1971-75 totaling 440,000 deadweight tons, or substantially more than total East German output in 1970. While output of ships is to go up, sales to other customers, including the domestic merchant fleet, fishing fleet, and navy, probably will account for most of the growth in output. Nevertheless, big trawlers, many with freezing equipment, supply ships for the Soviet fishing fleet, research ships, and dry cargo ships together with some naval craft and repair work will remain a major East German export to the USSR.

54. The value of exports of agricultural machinery to the USSR, on the other hand, will triple during the five years. East German exports include specialized combines, grain-cleaning and drying equipment, and milking machines. Agricultural machinery is to rise from about 5% in 1970 of all machinery deliveries to about 10% in 1975.

55. Deliveries of railroad equipment will also increase substantially, growing by 1975 about 90% above the 1970 level. The share in machinery deliveries should go up from nearly 10% in 1970 to 12% in 1975. As at present, deliveries will be chiefly of long-distance passenger cars (and complete trains) and cold-storage freight cars. The value of these shipments will amount to more than \$750 million over the five years. Soviet counter-deliveries of some 200 heavy diesel locomotives (3,000 and 4,000 horsepower), to complete the often-postponed conversion of the railroad system, will be of the same magnitude. The conversion, as already noted, will much reduce consumption of coal; what the railroad burns still amounted in 1969 to nearly 30% of total East German hard coal consumption.

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56. East Germany still plans on a large increase in exports of data processing equipment and components, though nothing like the increase originally projected. Total exports to and imports from the USSR in this category are to amount to about \$760 million in 1971-75. Even after allowing for exceptionally high prices in this new field - corresponding to high costs of production - the figure implies very rapid growth in trade in computers and peripheral equipment. If deliveries each way are to be about equal, then projected East German deliveries in 1975 would probably run over \$100 million, but probably would still come to less than 10% of total East German exports of machinery and equipment. The achievement of the goal for exports depends on putting into series production within the next year or so two new plants started in 1970 for producing computers and components.

57. Consumer goods will remain important in East German deliveries. The projected value of deliveries, \$2.6 billion over the five-year period, will rise to almost one-fourth of total East German exports to the USSR. Clothing is the single most important item; East German clothing, which is schlock to the American eye, is well suited to the tastes of Soviet planners and consumers alike. Furniture is another important item, of less than top quality and mediocre design and equally acceptable. Domestic appliances, musical instruments of various kinds, electronic equipment, ceramics, and housewares also are sold in substantial and growing amounts.

58. In all likelihood East German chemicals and other materials will contribute a growing share of exports in the 1970s, increasing by 60% to 80% from 1970 to 1975. This estimate, based on Table 6, is a best guess, which is in keeping with a continued rise in the residual (mostly uranium deliveries) at the fairly rapid rate of the late 1960s. East Germany has said practically nothing about chemical exports to the USSR in 1971-75, but they probably will continue to rise as fast as total exports. East Germany can hardly expect to expand its petrochemical industry largely with Soviet crude oil without a comparable rise in the return flow of chemical products to the USSR.

59. The trade agreements with Eastern Europe for 1971-75 projected less drastic changes in the East German position, but, even so, further restricted East German imports of materials. The agreements, as "finally" negotiated in late 1970 and early 1971 - in larger amounts with Bulgaria, Hungary, and Poland than originally foreseen - implied a rise of 59% in the overall trade from 1970 to 1975. ^{11/} (For estimated trade turnover,

11. The total volume in 1971-75, however, will run 69% above that in 1966-70.

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see Table 7.) Projected East German exports in 1975 are up by over 60%; imports by about 55%. 12/

60. Trade in machinery and equipment is to increase as a share of the total trade - from 55% of turnover in 1970 to 60% in 1975. East German machinery imports from Eastern Europe are to rise by over 80%; East German exports by 70%. Even by 1975, East Germany can still expect to be a net exporter of machinery to Eastern Europe, by about the same absolute amount as in 1970, but with a smaller relative balance, down from 29% to about 20%.

61. East Germany's net import surplus with Eastern Europe for goods other than machinery, still quite small in 1970, is to become a substantial export surplus in 1975. 13/ East German net exports of consumer goods and chemicals to Eastern Europe do not cover its net imports of fuels, metals and minerals, and food and agricultural products. The implied growth from 1970 to 1975 of East German imports in all these categories taken together is about 25%, whereas East German exports in these categories are to increase by one-half. In view of a probable rise in imports of consumer goods and military end items, East Germany is not likely to get a great deal more in the way of raw materials and semimanufactures in 1975 than in 1970. Imports of agricultural products and food probably will remain at about the 1970 level, and imports of fuels probably will decline. Imports of hard coal from Czechoslovakia, for example, are to drop to less than half of the level in recent years (with a commitment of only 1.6 million tons for the whole period). Metals and chemical imports are likely to rise significantly, but a considerable part of the increase will be offset by the expansion of East German exports in these categories.

62. The rapid increase projected in East Germany's imports of manufactures from Eastern Europe also involves a rapid growth of cooperative arrangements, especially with the northern countries. These include cooperative investment; joint production of automobiles and investment goods; swapping of similar products, including consumer goods and steel; and agreements for processing and refining metals, textiles, and chemicals.

12. Partly as a result of repaying deficits on the balance of payments with Poland and maintaining a large enough export surplus to avoid near deficits, and partly as a result of financing investment in other East European countries. Overall East German exports to the Communist world are to rise by "60% to 70%." Given an estimated rise of 64% in exports to the USSR, exports to Eastern Europe should rise by roughly as much.

13. As a result of the increased East German export surplus.

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Table 7

East Germany's Trade with Eastern Europe

	<u>Billion US \$</u>		
	<u>1970</u> <u>a/</u>	<u>1975</u> <u>Plan</u> <u>b/</u>	<u>Index</u> <u>(1970 = 100)</u>
<u>East German Imports</u>			
Machinery	0.63 <u>c/</u>	1.15	183
Other goods	0.62	0.78	126
<i>Total</i>	1.25	1.93	154
<u>East German Exports</u>			
Machinery	0.81 <u>c/</u>	1.38	170
Other goods	0.58	0.88	152
<i>Total</i>	1.39	2.26	163

a. Exports and imports were broken down into machinery and other goods from partial data for partner countries.

b. Data for the 1975 plan are projected from official data on trade agreements for 1971-75, assuming a constant rate of growth, except in the case of Czechoslovakia, for which 1975 planned turnover is given. The breakdown of exports and imports is based on estimates of the East German surplus needed to eliminate balance-of-payments deficits.

c. The somewhat higher figures given out by East Germany are believed to include military end items.

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63. Poland will install two foundries in East Germany, will largely build a sulfuric acid plant, and will provide most of the equipment for a rolling mill. East Germany will provide Poland all the equipment for an oxygen and air separating plant. East Germany will join with Czechoslovakia and Hungary in building an automobile plant in Slovakia, reportedly with a capacity of 500,000-600,000 cars a year.

64. Exchanges of similar products include one for paper and paper products with Hungary involving exports of about \$25 million each way in 1971-75; a deal with the Czechs to swap passenger cars -- 12,000 Trabants and 3,000 Wartburgs for 15,000 Skoda S-100 cars; a barter agreement of \$11 million with Hungary in consumer goods, including the swapping each way of 170,000 pairs of shoes and assorted toys; the exchange of from 150,000 to 250,000 tons each way of assorted steel products by Poland and East Germany; and the exchange of \$25 million worth of measuring instruments with Hungary.

65. The general message in all these exchanges is that the other East European countries -- especially Poland, Czechoslovakia, and Hungary -- have increasingly succeeded in getting their manufactures accepted by East Germany on more or less even terms. The unique position to which the East Germans have long had pretensions -- a constant irritant in East European relations -- is slowly being abandoned of necessity. The political as well as the economic significance of this process is evident.

Trade With the West

66. East German plans for 1971-75 apparently project only a slow increase in trade with the West. According to the plan directives, the share of trade with the West will drop from 28% of the total in 1970 to 25% during the period. That implies a rise of not much more than 40% in trade. ^{14/} The regime apparently arrived at this figure by deciding not to increase much -- perhaps even to reduce -- trade with West Germany. The East Germans have great expectations for trade with other countries of the industrial West. A senior foreign trade official, Gerhard Beil, has claimed that trade agreements with several of them, including France, call for doubling of trade by 1973 or 1974. East Germany also looks forward to big increases in trade with some of the less developed countries. Although

14. The growth of total trade is projected at 9% to 10% per year, according to an article in Wirtschaftswissenschaft, No. 7, July 1971, p. 946. That estimate is consistent with other information. Thus trade is to increase at most to 61% by 1975. A 25% share of projected 1975 turnover amounts to \$3.79 billion, or 41% more than the 1970 turnover with the West (using official data).

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trade with one of the most important of them, the United Arab Republic, is to rise by only 60% in 1972-75, one official speaks of tripling trade with Latin America in a few years. Hopes are held out for a swift rise in trade with Japan, which is still very small.

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67. But a 40% increase in trade with the West will hardly give East Germany the additional materials needed to maintain growth. It would permit only about a 19% rise in imports from the West, on the strong presumption that East Germany proposes not to increase its total indebtedness to Western countries. How then are the East Germans to balance plans for 1971-75, given that they cannot expect much of a net increase in material imports from the CEMA countries?

68. The gap in supplies has been filled by projecting great "savings" of materials in 1971-75, through recovery of more scrap and waste materials, through making more use of domestic resources, and, above all, through cutting specific consumption of electric power, coal, steel, and other commodities. Unused steel scrap "reserves" are estimated by the East Germans at 300,000 tons per year. Total consumption of materials per mark's worth of industrial output is to drop by close to 2% per year during the period. Specific consumption of fuels and electric power is to drop by an average of 3.2% to 3.6% per year; that of rolled steel in the engineering industries by 3-1/2% to 4%.

69. It would be surprising if the East German planners themselves took much stock in these projections. The 1960s have not seen any significant decrease in material consumption per unit of output, except in the use of electric power. So long as the regime presses to maintain the growth rate, consumption coefficients are not likely to drop much. Something then will have to give, either the resolve to maintain the growth rate or the decision to reduce dependence on West Germany -- and probably both.

70. East Germany would need an increase of nearly 50% in imports of raw materials and semimanufactures from the West in 1971-75 in order to maintain the growth rate at about the level of the late 1960s as proposed in the directives for 1971-75. This estimate assumes that total East German material consumption would have to increase at about the same rate as in 1956-70 and that imports from the West would have to provide about the same share of the total increment in domestic consumption. To be sure, East Germany is not soon likely to face such bad weather again as in 1969-70. But on the other hand, inventories were drawn down in 1969-70 and must now be rebuilt. On balance, the assumptions seem reasonable. East Germany can hardly expand its priority industries and the output of

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ment and dairy products without continuing to expand imports of nonferrous metals, chemicals, and feedstuffs from the West. Imports of crude oil are expected to increase to at least 3 million tons by 1975, about twice the 1970 level; contracts have been signed for imports of 2 million tons in 1971. The future of steel imports is uncertain; expect a large increase in East German imports from the West. Coal imports will remain at or below the 1970 level, though they will hardly drop to the extent projected in the plan for 1971-75.

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71. Moreover, imports of Western machinery and equipment will probably rise by well over 50%. Even to obtain the same absolute increment as in 1966-70 -- and the ambitious growth plans probably call for more -- an increase of 63% would be required. In addition, difficulties in satisfying consumer demand may well lead to a sharp rise in imports of industrial consumer goods.

72. In order to pay for such increases in imports -- close to 50% for materials, over 50% for machinery, and a significant rise in consumer goods imports -- without any rise in indebtedness to the West over the period, East German exports to the West in 1975 would have to be more than double the 1970 level. ^{15/} Western markets might absorb such an increase -- if the West German market is fully exploited. Demand has been fairly strong for East German chemicals and some steel products, together with consumer goods and selected machinery items. But East Germany almost certainly cannot double its exports to the West while meeting commitments to the Communist world. Exports to the Communist world are to rise by 60% to 70% -- to CEMA alone by 63% as shown by Tables 6 and 7. Total East German exports rose by about 50% in each of the last five-year periods, and the East Germans themselves plan on raising exports by at most a little over 60% in the present period.

73. With a widening gap between the need for imports and ability to export, the East Germans can hardly afford not to exploit the advantages of trade with West Germany. It may be argued that they expect the advantages to be much less once West Germany has extended formal recognition. That would change the status of East-West German trade from "intra-German" to international trade. It would then be hard to justify continued exemption of the trade from the provisions of the Treaty of Rome, and West Germany would be required to establish the same tariffs and quotas for East Germany as for other "state trading countries." But the East Germans have indicated that they consider the special East German status in trade with West Germany a vested interest and that they would

15. If exports f.o.b. and estimated imports c.i.f. in 1970 are used as a base and total exports and imports in 1971-75 are balanced.

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insist on equivalent compensation of one sort or another. As Willi Stoph suggested in June 1970 at the 13th Party Plenum, two can always play at the game of imposing tariffs 16/:

So far as our trade with the FRG is concerned, we take the view that the acceptance of equal relations between the GDR and the FRG on the basis of the law of nations can only be advantageous. We cannot imagine that the regime of the FRG is bent on a reduction of trade relations with the GDR. . . .

A propos, the FRG in the year 1969 piled up a trade turnover of 24 billion marks with the independent political entity West Berlin. This sum will give something to think about here and there if there is talk about advantages or disadvantages in the field of tariffs.

As stated, we are at any time in a position to make detailed representations on the entire problem, and it would be better for the initiators to make an end as soon as possible to certain propaganda and tendentious false information.

In addition, of course, the East Germans claim that West Germany owes them more than a billion marks, 17/ and renewed efforts to collect these "debts" will doubtless be made.

74. The Honecker regime presumably will try to hold to its present plans and policies as long as possible, for the sake of maintaining a strong position on relations with West Germany and a bold front in domestic affairs. But the regime can hardly go for more than a year on this basis without Soviet help. Even if the Soviet government reluctantly allows the East Germans to go further into debt, the regime will have to find some way of balancing its foreign accounts. Being practical politicians, the new leaders will probably find a way to exploit East Germany's unique access to the West German market and West German credits, perhaps even to encourage "cooperative ventures," which have been ruled out up till

16. Neues Deutschland, 16 June 1970, p. 6. The same argument is developed in an article appearing shortly before, which also denies that the terms of trade benefit East Germany. Neues Deutschland, 7 June 1970, p. 5.

17. See, for example, the article cited above from Neues Deutschland, 7 June 1970.

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now, 18/ At the same time, the regime will doubtless try to reduce the share of West Germany in total trade with the West.

75. Even on the most favorable assumptions -- including the critical one that East Germany will have the political flexibility to make full use of the possibilities of trade with and help from West Germany -- the East Germans will probably have to reduce the rate of economic growth during 1971-75. In short, it will be hard for the Honecker regime to avoid rising Western debts, a declining growth rate, and increased dependence on West Germany.

18. Except for contracts for processing materials -- in particular, nonferrous metals and crude oil -- which already play an important role in trade with West Germany.

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